MISSION STEWARDSHIP

ALIGNING PROGRAMS, INVESTMENTS, AND ADMINISTRATION TO ACHIEVE IMPACT

By William M. Dietel, Chair, The F.B. Heron Foundation

Andrew Carnegie built the nation's public libraries, and now Bill and Melinda Gates are connecting them to the Internet. This juxtaposition of past and future giving is illustrative of the many changes occurring in philanthropy. Philanthropy is in the midst of a seismic change with dramatic growth in the number and size of foundations. New philanthropic leaders are questioning the basic assumptions of how foundations should operate. Society and government are relying more and more on private actors to catalyze social change. Thus, philanthropy's vital funding of the "third sector"—the amalgamation of people and organizations dedicated to the public good—is becoming ever more important.

A major challenge arising from these new opportunities is demonstrating accountability—accountability to our institutional missions, to our grantee partners and, ultimately, to the public trust. Accountability is now a well-established governance principle for foundations, but that has not always been the case. In the 1980s, when I was involved in starting BoardSource, an organization that aims to increase the effectiveness of nonprofit boards, only 30 percent of nonprofit leaders believed they were doing a good job of educating and training their board members. The rest reported little, or no, activity in strengthening nonprofit governance. Today, many more nonprofits and foundations have filled this gap with better governance structures, orientations, meetings, audits, and communications. To remain effective, however, leaders in philanthropy must go farther to demonstrate to stakeholders that they are delivering on the promise of foundations' missions.

PUTTING FOUNDATION RESOURCES TO THE HIGHEST AND BEST USE

As Chairman of the Board of the Heron Foundation, I characterize my responsibility as **stewardship** of the Foundation's mission and resources. I believe that effective stewardship entails the deployment of the foundation's assets to their highest and best use. Too many foundation boards, however, limit their view of fiduciary oversight. They accept a narrow interpretation that assumes the best thing a board can do is to maximize the financial value of the endowment. The comparison of US Foundation giving with its assets shows the predominance of this view (*Chart 1 on following page*).

Certainly, preservation of assets to fund future grants is an important responsibility, but by warehousing endowments, foundations defer funding today's issues for the presumed benefit of funding tomorrow's. As a result, we all face the opportunity cost of leaving today's problems unsolved, and, while we may have a difficult time calculating it, there is certainly a considerable cost in doing so.

While foundations' resources are limited and boards must manage their allocation over time, mission stewardship challenges board members to do more than keep foundation assets from jeopardy. It asks board members to govern in a way that maximizes foundations' overall effectiveness. This responsibility is derived from philanthropy's admirable ambition to solve the world's most challenging problems. Since even $500 billion of assets is not enough to solve them all, finding the highest and best use of those assets becomes critically important.

LIMITING PHILANTHROPY BY MAKING THE FLOOR THE CEILING

Unfortunately, I see that at many foundations the practice of mission stewardship is circumscribed by philanthropy's conventions. Most charitable distributions are limited in quantity to 5% of assets and in quality by restricted funding. Boards typically focus on a main objective of growing the corpus to fund a larger grants budget year after year. In using only 5% of assets for charitable purposes, foundations accept the 5% IRS minimum as a de facto maximum. In effect, foundations' program strategies, investment policies, administrative budgets, and opportunity sets are defined by this government regulation.

This premise assumes that foundations have already maximized their effectiveness in grantmaking. The evidence, however, paints

"Based on Cambridge's research, it appears that both the Uniform Prudent Management of Institutional Fund Act (UPMIFA) and the Uniform Management of Institutional Funds Act provide institutions with flexibility to take program considerations into account when making investment decisions."

—From *Cambridge Associates' Social Investing Survey: A Statistical Summary*

Chart 1: U.S. Foundation Giving and Assets

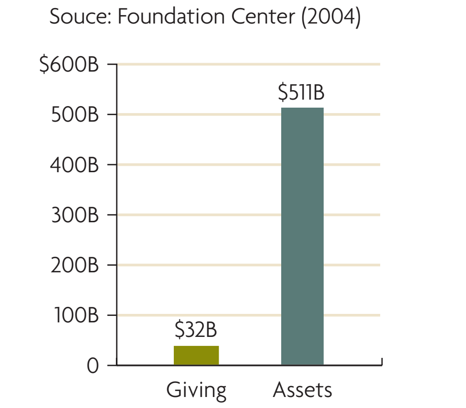
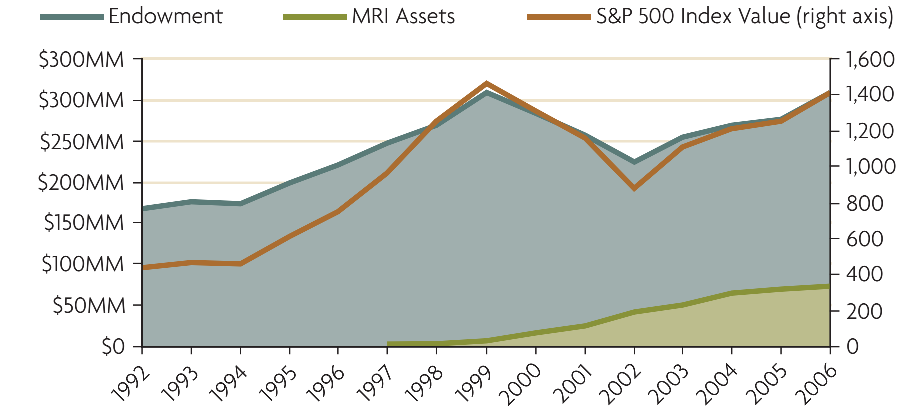


Chart 2: F.B. Heron Foundation Endowment Growing with Mission-Related Investing



a different picture. Research conducted by the Center for Effective Philanthropy shows that foundation grants tend to be too modest in size, too short term, and too restricted to specific programs. Too often, foundation funding forces nonprofit partners to focus on narrow program objectives to be achieved in short periods of time. Weighty goals such as those addressed in foundation missions—self-sufficiency, equality, justice—require creativity, perseverance, and flexibility to achieve. Failing to provide sufficient, flexible, long-term funding hobbles grantee organizations and limits foundations' own effectiveness.

IMPLEMENTING AN INTEGRATED APPROACH

When board members accept a broader perspective of mission stewardship, they are then obliged to step away from traditional foundation practices and consider different approaches and new models. Leverage, partnerships, risk taking—these are the elements necessary for successful mission stewardship in a resource-constrained environment, and they can be integrated in a number of ways, from capacity building to core funding to mission investing.

At Heron, mission stewardship means that we instill accountability in each of the foundation's primary functions: programs, investments, and administration *(Table on following page)*. We work to make predominately **core support grants** to organizations that achieve results in low-income communities, to support practical, meaningful approaches to **assessing impact**, to deploy a sizable portion of our endowment in **mission-related investments**, and to emphasize **customer service values** in all of our administrative operations.

These principles of stewardship incorporate the critical role of fiduciary responsibility without crowding out accountability for program and administrative performance. This approach to stewardship has served the Foundation well; we have been able to preserve the value of the endowment while making a total of $126 million in grants, the majority of which has been in the form of core support, and deploying almost 25% of the endowment in mission-related investments *(Chart 2)*. Whatever approaches foundations employ, we can improve our stewardship by helping to build more efficient and effective partners and remain focused on the thing that matters most—impact.

EXTENDING PHILANTHROPY'S REACH

Heron is **not** alone in its ambition to serve these principles of stewardship—we have good company in mission-related investing with 88 other foundations reporting some level of mission investing activity (as recently reported by FSG Impact Advisors). Heron's particular interest in making mission-related investments grew out of a realization by Heron's board and staff that the extent of the social problems they were focused on would require great resources and they looked for ways to extend their philanthropy. Motivated by the prospect of having more of an impact, Heron's Board saw the 5% payout requirement as a necessary part of its philanthropic strategy, but not a sufficient one. It expanded its view of the role of the endowment in reaching mission goals by augmenting the philanthropic "toolbox" available to the Foundation in generating social impact beyond the one, grantmaking, that it already had in use. By adding mission-related investing, the Foundation could make a powerful statement about the future of low-income people and communities.

BUILDING A BRIDGE BETWEEN PROGRAMS AND INVESTMENTS

Secure in the conviction that effective philanthropy entails well-considered risk, Heron moved to the frontier of philanthropic practice by developing a mission-related investing strategy. With a common commitment to experiential learning and incremental progress, the Board set the direction and staff worked hard to identify key partners and specific investment opportunities as a way to build its mission-related investment portfolio. Over the years, this experience influenced Heron's philanthropy and represents a

"But to the extent that we [Warren and Susan Buffet] did amass wealth, we were totally in sync about what to do with it—and that was to give it back to society. In that, we agreed with Andrew Carnegie, who said that huge fortunes that flow in large part from society should in large part be returned to society."

—Warren Buffet, *Warren Buffet Gives it Away*, Fortune: July 10, 2006.

Foundation Function	Stewardship Principle	Heron Practice
Program	Stewardship of mission through strategy	• Programs aim to reflect the most effective strategies to meet mission goals and demonstrate impact • Use core support over time to back high-performing organizations • Unified charitable distributions budget includes grants *and* program-related investments
Investments	Stewardship of financial resources through prudent investment	• Maximize mission impact of financial resources over time • Investment objective of sustaining endowment on inflation-adjusted basis for the long term • Leverage and co-invest with other mission investors
Administration	Management of business operations for effectiveness	• Unified presentation of program, investment, and administrative performance • Minimize non-charitable expenses • Operate with customer service values in all dealings

divergence from orthodox foundation grantmaking and investment management.

Heron's practice confronts the typical disconnection between program goals and investment functions by calling into question the assumed tradeoff between competitive financial returns and social impact implicit in the organization and strategy of most foundations. For the past ten years, Heron has demonstrated that mission-related investments can contribute to the achievement of competitive returns as part of a diversified portfolio. Heron's investment performance surpassed the Mellon All-Foundation median on a one- and three-year basis with nearly 25% of the endowment deployed in mission-related investments. With investment discipline and programmatic experience, Heron found that both program and investment objectives can be achieved when pursued in alignment with a foundation's mission.

TAKING RISKS, ACHIEVING IMPACT

The Heron Foundation is a medium-sized foundation with assets of around $300 million, and we understand that its resources are limited. Resource allocation decisions involve a complex set of judgments on strategy, partners, and measurement over time. It certainly entails a greater duty than solely considering investment performance. Given the complexity inherent in all social issues, the Heron Board decided that core support grantmaking paired with mission-related investing puts the foundation, given its size and strategy, on the right track to fulfill its mission.

Some foundations will find other ways to enhance and increase the efficacy of their giving. It is possible that other philanthropic forms and actors could eclipse private foundations in terms of scale and impact. Philanthropists such as Bill and Melinda Gates, Warren Buffet, Google.org, and Pierre and Pam Omidyar are challenging philanthropy's conventions in their own ways. The scale of their efforts is without precedent. While few foundations will be able to match the financial resources that these philanthropists have, their questioning posture is worth following. I would argue that the question of whether or not foundations are willing to put money at risk, in the form of working or investment capital, warrants special consideration because it gives foundations a stake in the success or failure of grantees and investees. This relationship, one between equal stakeholders, unites funder and recipient in working toward common goals and creates accountability for foundations in the same way that foundations look for accountability in their grantees.

Whatever the approach, foundation governance must accept the challenge of mission stewardship and keep mission front and center in the oversight of programs, investments, and administration. By limiting giving to 5% of assets and restricting it to project funding, foundations are starving the sector of the capital it needs and, consequently, are at risk of falling short of their own mission goals. Imagine what could be accomplished if philanthropy focused all aspects of its governance and practices on its mission. For the first time in a long time, philanthropy would be truly accountable to beneficiaries, grantees, donors, and, most importantly, the public trust.

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About the Author

William M. Dietel, former President of the Rockefeller Brothers Fund, is a distinguished leader and thinker in the nonprofit and philanthropic sectors. He currently serves on the boards of a number of organizations, including the Pierson-Lovelace Foundation and the Brain Mapping Medical Research Organization, both in Los Angeles; Guidestar International Network; the Advisory Committee for the Institute of Philanthropy in London; and the American Advisory Committee of the Courtauld Institute of Art in London. He currently works as a consultant to a number of philanthropies and families. He has authored numerous articles and books including "Impact of the New Economy of Foundations," with Tory and Jonathan Hopps, and *The Board Chair Handbook*, co-authored with Linda R. Dietel.

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